

## Message Text

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PAGE 01 BUENOS 05402 112031Z

62

ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 DODE-00 PM-04 H-02 L-03

NSC-05 PA-01 PRS-01 SS-15 DOTE-00 /084 W

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FM AMEMBASSY BUENOS AIRES

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E.O. 11652: N/A

TAGS: ECON, EGEN, ELAB, AR

SUBJECT: ARGENTINA ON THE ROAD TO RECESSION

REF: BA 5339

1. SUMMARY: A RECESSION IS NOW UNDERWAY IN ARGENTINA, AND HAS BEGUN TAKING ITS TOLL IN UNEMPLOYMENT AND REDUCED LEVELS OF OUTPUT. SPEED WITH WHICH ECONOMY SEEMS TO BE LOSING MOMENTUM IS SURPRISING, AND ALARMING. A NUMBER OF KEY SECTORS, INCLUDING AUTO INDUSTRY, HAVE BEEN PARTICULARLY HARD HIT. CGT, CONCERNED WITH RAPIDLY RISING UNEMPLOYMENT, HAS PROPOSED EMERGENCY PLAN WHICH INCLUDES MORATORIUM ON LAYOFFS. GOA HAS BEEN SLOW TO FACE PROBLEM SO FAR. END SUMMARY.

2. A CONTACT IN BUENOS AIRES CENTRAL POST OFFICE REPORTS THAT IT PROCESSED 25,000 DISMISSAL TELEGRAMS BETWEEN THE 1ST AND THE 6TH. OF AUGUST. PROJECTED ON A MONTHLY BASIS, THIS COULD MEAN 100,000 UNEMPLOYED PER MONTH OF A TOTAL WORK FORCE OF 9 MILLION - IF THIS RATE OF DISMISSALS WERE TO CONTINUE.

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PAGE 02 BUENOS 05402 112031Z

3. SYMPTOMS OF RECESSION APPEARED IN LATE JUNE WHEN

THEN MINISTER OF ECONOMY RODRIGO DECONTROLLED PRICES. PRICES INCREASED ABRUPTLY THROUGHOUT THE ECONOMY OVER A PERIOD OF ONLY A FEW WEEKS, AVERAGING WELL OVER 100 PERCENT. WAGE INCREASES WERE CONSIDERABLY DELNJC LEWHEN WAGES BECAME THE SUBJECT OF CONTROVERSY BETWEEN MRS. PERON'S GOVERNMENT AND THE CGT, RESULTING IN A SHARP AND IMMEDIATE DECLINE IN DEMAND. (WAGE INCREASES HAVE NOT YET BEEN DISBURSED FOR IMPORTANT SECTORS SUCH AS GOVERNMENT EMPLOYEES). THE EFFECTS OF THE DROP IN DEMAND WERE REINFORCED BY A LIQUIDITY SQUEEZE BROUGHT ON BY THE INSUFFICIENCY OF THE MONEY SUPPLY IN THE FACE OF MASSIVE PRICE AND WAGE INCREASES. FIRMS HAVE FOUND THEY DO NOT HAVE ENOUGH CASH TO PAY THEIR SUPPLIERS OR PAY SALARIES AT THE NEW LEVELS.

4. THE DECLINE IN OUTPUT HAS BEEN AGGRAVATED BY THE FOREIGN EXCHANGE CRISIS WHICH HAD ITS BEGINNINGS IN LATE FEBRUARY AND HAS FORCED THE GOA TO RATION EVEN IMPORTS OF ESSENTIAL PRIMARY AND INTERMEDIATE INPUTS FOR DOMESTIC INDUSTRY.

5. THE HARDEST HIT INDUSTRIES APPEAR TO BE THE TEXTILE, ELECTRIC APPLIANCE AND SERVICE INDUSTRIES. THE AUTO INDUSTRY HAS BEEN PARTICULARLY HARD HIT. SALES FOR JULY WERE LESS THAN 50 PERCENT OF THE JANUARY-JUNE 1975 AVERAGE. LAYOFFS BY AUTO INDUSTRY SUPPLIERS HAVE ALREADY BEGUN. THE FARM MACHINERY SECTOR, WHICH HAS BEEN IN RECESSION FOR SOME TIME BECAUSE OF THE DIFFICULT SITUATION GOVERNMENT ECONOMIC POLICY HAS CREATED FOR THE AGRICULTURAL SECTOR, HAS WITNESSED ITS SALES DECLINE EVEN FURTHER. BASIC INDUSTRIES, SUCH AS STEEL, HAVE BEGUN TO FEEL THE PINCH. THE COUNTRY'S LARGEST STEEL PRODUCER, THE GOA'S SOMISA, REPORTS A 20 PERCENT DROP IN ORDERS IN JULY OVER THE PREVIOUS MONTH.

6. LABOR HAS BECOME ALARMED OVER SITUATION AND HAS CALLED FOR IMMEDIATE GOVERNMENT ACTION. IN AUGUST 7 MEETING WITH MINISTER OF ECONOMY BONANNI, CGT CALLED FOR A 90-DAY STATE OF EMERGENCY DURING WHICH WORKERS COULD NOT BE DISAHCARGED, BUSINESSES COULD NOT CLOSE DOWN, AND RECENTLY DISCHARGED, WORKERS WOULD BE REINSTATED. CGT ALSO CALLED FOR PRICE LIMITED OFFICIAL USE

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PAGE 03 BUENOS 05402 112031Z

FREEZE, REDUCTION IN PRICE OF FAMILY BASKET ITEMS AND GOVERNMENT CREDIT TO ASSIST COMPANIES.

7. GOA'S MOST IMPORTANT MOVES TO DATE ON DOMESTIC FRONT TO COUNTER THE ECONOMY'S RECESSIONARY TENDENCIES HAVE BEEN TO REIMPOSE GENERALIZED PRICE CONTROLS AND TO ATTEMPT TO EXPAND CREDIT. MINISTER OF ECONOMY BONANNI HAS MADE A PROPOSAL FOR A WAGE-PRICE

TRUCE FOR A LIMITED PERIOD, WHICH HAS ALREADY DRAWN FIRE FROM BUSINESS AS BEING IMPRACTICAL IN A PERIOD OF 200 PERCENT PER ANNUM INFLATION WHEN PRICES HAVE TO BE ADJUSTED WEEKLY, AT A MINIMUM. GOA HAS ALSO IMPOSED A VIRTUAL FREEZE ON ALL IMPORTS EXCEPT THOSE ESSENTIAL INPUTS TO LOCAL INDUSTRY, AND, HAVING FAILED TO OBTAIN NEW CREDITS OVERSEAS, IS NOW TALKING ABOUT DEBT RESCHEDULING (SEE BA 5339).

8. COMMENT: PERHAPS THE MOST DISQUIETING ASPECT OF THE PRESENT SITUATION IS THE SLOWNESS WITH WHICH THE GOA APPEARS TO BE REACTING TO THE ACCUMULATING CRISIS. PRESS OF MONDAY, AUGUST 11, IS AGAIN SPECULATING ABOUT CABINET CHANGES AND ENTIRE CABINET INCLUDING BONANNI, HAS RESIGNED. THE POLITICIANS DO NOT YET SEEM TO HAVE THE ECONOMIC PROBLEM IN FOCUS, INTENT AS THEY ARE ON THE CONTINUING POWER STRUGGLE. PERHAPS THE CGT'S INITIATIVE, REPORTED ABOVE, WILL FORCE THE PACE. HILL

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